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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE AND FEE CHANGES, 2000)
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REBUTTAL TESTIMONY OF
WILLIAM WILSON
ON BEHALF OF THE
NEWSPAPER ASSOCIATION OF AMERICA

Please address questions
concerning this testimony to:

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August 14, 2000

1 **I. INTRODUCTION**

2 My name is William Wilson. I am Director of Special Projects for the
3 Knight Ridder Company, and am a representative of the Newspaper Association
4 of America on the Mailers Technical Advisory Committee (MTAC). I was
5 previously Director of Target Marketing for Knight Ridder. Knight Ridder is a
6 California based communications company which owns and operates 31 daily
7 and 22 non-daily newspapers, and which also operates a variety of Total Market
8 Coverage (TMC) and other mail programs. Knight Ridder also owns and
9 operates an extensive Internet business, and still does some alternate delivery
10 business.

11 Newspaper Total Market Coverage (TMC) programs involve the delivery
12 of newspaper advertising inserts (or advertising preprints) to newspaper
13 subscribers and the delivery of that same insert to newspaper non-subscribers
14 through the use of alternate delivery, postal delivery or a combination of the two
15 methods. Through our TMC programs, we are able to provide much higher
16 household penetration for an insert than newspaper delivery alone could provide.
17 We can do this in either the total market or a zoned segment of that market. We
18 can generally zone down to a single ZIP code with our newspaper inserts, and
19 we can generally zone down to a single postal carrier route with our mailed TMC
20 programs.

21 I am intimately familiar with the alternate delivery industry, having been
22 closely involved in Knight Ridder's alternate delivery efforts. After the 1995
23 postal reclassification case, Knight Ridder shut down most of its alternate

1 delivery businesses and moved the products back into the mail. Today, almost
2 all our products are in the mail. The remaining alternate delivery systems we
3 have are in Miami, Florida; Biloxi, Mississippi; and Fort Wayne, Indiana.

4 **A. Purpose of Testimony**

5 My testimony has three interrelated purposes:

- 6 1. To rebut SMC witness Harry Buckel's competitive assessment
7 of the alternate delivery industry. The alternate delivery
8 industry is not gaining ground over mail, but is in dire straits.
9 This is due to postal reclassification, which not only lowered
10 periodical rates but also created the ECR subclass with its
11 associated price reductions, as evidenced by AAPS witness
12 White. I believe that the Postal Service has taken so much
13 business away from the alternate delivery industry over the last
14 four years (including almost all of Knight Ridder's) that the only
15 reason that the industry still exists is because of its delivery of
16 product samples and telephone books, plus their ability to sell
17 enough advertising to meet their goals. I believe that lowering
18 the pound rate could easily be the death knell of the alternate
19 delivery industry.

- 20
21 2. To remind the Commission of something overlooked by
22 witnesses Roger Merriman and Orlando Baro -- that
23 newspapers are not only in the business of delivering

1 advertising, but also are in the business of delivering news, and
2 that the news which is critical to the well-being of our political,
3 economic, and social life is paid for by advertising. For every
4 dollar that shifts out of newspaper advertising and into local
5 non-newspaper saturation advertising companies, there is a
6 corresponding decrease in the distribution of the news to the
7 American people.

8 This is in contrast to the free publication shoppers of
9 witnesses Merriman and Baro, whose advertising revenue does
10 not support a news product, except for the occasional public
11 service notice.

12
13 3. To clarify that newspapers are not in direct competition with
14 the Postal Service, but are in direct competition with companies
15 that distribute local retail advertising—commonly on a saturation
16 basis in either a shopper or shared mail format. The direct
17 competition to the Postal Service is from alternate delivery.
18 Newspapers should be viewed as postal competitors only when
19 they run an alternate delivery of their own to deliver the TMC
20 product. Almost all large papers now use the mail, and not
21 alternate delivery.

22 From a layman's perspective, it appears to me that the
23 Postal Service's attempt to reduce prices on heavyweight

1 products is a veiled attempt to drive advertising out of
2 newspapers and into saturation all-mail products. This situation
3 is not like the competition between the Postal Service with
4 parcel or overnight companies. They are head-to-head
5 competitors. We are not. For this reason, I want to remind the
6 Commission that it is not appropriate to compare Standard Mail
7 ECR pound rates and newspaper preprint rates.

8 Put simply, the proper comparison for the Standard ECR
9 pound rate is to the rates charged by alternate delivery
10 companies. The proper comparison for the rates newspapers
11 charge an individual preprint advertiser is to the rates that
12 saturation mailers like Advo or *The Flyer* charge an individual
13 preprint advertiser.

14 **B. Personal Background**

15 I have been involved in the newspaper business for over 35 years. I
16 started my career in advertising sales at the *Minneapolis Star and Tribune*, which
17 was owned by Cowles Media at the time. I subsequently moved into sales
18 management. While at the *Star and Tribune*, I built its first newspaper part-run
19 insert delivery program and in 1978, I designed and managed the first weekly
20 non-subscriber delivery program for the *Star Tribune* to deliver K-Mart
21 supplements using private carriers. I subsequently became Advertising Director
22 for *The Yakima (WA) Herald Republic*, then a Harte-Hanks property. Later, I
23

1 started and managed a company that published community telephone directories
2 for Cowles Media Co. in Denver and Minneapolis/St. Paul.

3 In 1981, I moved back to the newspaper business in Minneapolis, and in
4 1983, I went to Knight Ridder and *The Saint Paul Pioneer Press*. While there I
5 built another weekly non-subscriber delivery program. This time the program
6 used mail to deliver to non-subscriber households a free newspaper section, K-
7 Mart supplements, and other advertising inserts.

8 I joined Knight Ridder's corporate staff in 1987 as Director of Sales
9 Training and Development, and in 1992 was named Target Marketing Director.
10 As Target Marketing Director, my business assignment was to assist Knight
11 Ridder Newspapers in the building and operation of targeted or total market
12 coverage delivery programs. During that time, I oversaw the building of alternate
13 delivery programs, and the movement of most of Knight Ridder's TMC programs
14 out of alternate delivery and into mail.

15 Recently, I accepted an assignment to assist in the startup of a number of
16 new Knight Ridder businesses involving the targeted distribution of information.
17 In addition to these assignments, I have also accepted emergency assignments
18 over the years to help our newspapers and their communities recover from
19 natural disasters in Miami, Biloxi, and Grand Forks.

20 **II. ALTERNATE DELIVERY**

21 **A. History of Newspaper Non-subscriber Delivery**

22 I know the Commission doesn't want a history lesson, dating back from
23 when the first advertising piece was delivered to someone in the United States,

1 so let me keep this fairly current. From the newspaper industry perspective,
2 alternate delivery to non-subscriber households has been around for a long time.
3 In 1970, the *Lexington (KY) Herald-Leader* developed *Blue Grass Today*, a free
4 weekly news and advertising product, and had their newspaper carriers deliver it
5 to all of the non-subscriber households in Lexington. They changed this practice
6 when they moved to morning delivery of the newspaper and could not get the
7 newspaper onto the subscriber's doorstep in time for them to read it. The
8 solution was to use another delivery force to deliver the weekly product. The
9 *Herald-Ledger* maintained this alternatively delivered publication until the mid
10 '90's, when they cancelled it and moved their non-subscriber delivery program to
11 mail.

12 In the late '70s, many other newspapers began to look at similar weekly
13 non-subscriber delivery programs to meet the requests of K Mart and grocers
14 who wanted to reach every household in a community regardless of whether or
15 not they subscribed to the newspaper. If a company published an afternoon
16 newspaper, it contracted with their newspaper carriers to deliver the non-
17 subscriber product during the day. Once the newspaper moved to morning
18 delivery, this interfered with timely newspaper delivery. Newspapers either
19 cancelled the delivery program or contracted a separate delivery force to deliver
20 their non-subscriber product. These non-subscriber delivery programs came into
21 and went out of existence as advertisers requested or cancelled their saturation
22 programs.

23 The market changed by the early '90s when almost all of the grocers, and

1 some of the major discounters, started requiring that their advertisement reach
2 every household within a certain radius of their store locations. Newspapers
3 began seriously looking at how to turn saturation delivery programs into viable
4 businesses.

5 **B. Past Use of Alternate Delivery**

6 In 1992, Knight Ridder established a corporate goal to have their
7 newspapers develop non-subscriber delivery programs to enhance the
8 penetration of newspaper supplement delivery. We elected to build alternate
9 delivery programs in most cases.

10 We did this because there was an emerging market for the private
11 delivery of high density weekly and monthly magazines, plus product samples,
12 and because many publishers did not believe that the Postal Service would treat
13 them fairly. One major problem was that our saturation mail competitors had
14 already "reserved" a specific day of the week with the Postal Service for the
15 delivery of their product, and had received a strong USPS commitment to see
16 that the product was delivered on that day. At that time, the Postal Service
17 would not give a similar delivery commitment for that same day to another
18 mailer. Hence, when a newspaper's marketing plans called for delivery on the
19 same day that our competition was distributed, alternate delivery was the only
20 option.

21 We eagerly contracted with Publishers Express or Alternate Postal
22 Delivery Inc. for the delivery of magazines because we knew that our non-
23 subscriber insert delivery business alone would not be sufficient to meet our

1 start-up delivery costs. Our plans were to use magazine delivery revenue to
2 offset the low volume and revenue that our non-subscriber delivery programs
3 would have as we started to build that business.

4 By 1995, we had 25 of our 28 of our newspapers using alternatively-
5 delivered TMC programs to deliver inserts, magazines, shoppers and product
6 samples within their markets. These hand delivery companies were delivering to
7 around 5.1 million households every week. In-the-mail programs were delivering
8 to about 350,000 households every week.

9 In 1996, because of postal reclassification, we started to lose the
10 magazine delivery business. When this revenue base moved back to postal
11 delivery, the economics of alternate delivery changed so that mail delivery
12 became more economical. Our newspapers began the conversion process from
13 private delivery programs to mailed delivery programs.

14 Between 1996 and 1998, I assisted our newspaper-owned delivery
15 companies as they converted from 90 percent hand-delivered non-subscriber
16 programs to 80 percent postal delivery. When this business went back to the
17 mail, hundreds of delivery agents, supervisors and packaging employees lost
18 their jobs across Knight Ridder markets, as well as other newspaper markets.

19 In fairness, I should add that the loss of magazines alone did not cause
20 the entire downfall of our alternate delivery businesses. Problems with delivery
21 accuracy and reliability were constant issues in our alternate delivery programs.
22 Even today, these can be issues. Price is far from the only consideration in
23 deciding whether to use alternate delivery or mail.

1 This is an issue well known to advertisers. Indeed, as I traveled the
2 country selling non-subscriber delivery programs to insert advertisers, many of
3 them expressed a preference to have us mail our non-subscriber products rather
4 than deliver them through alternate delivery forces. We listened to them.

5 **C. Current Use of Alternate Delivery**

6 Today, only three of our 31 newspapers with non-subscriber delivery
7 programs use an alternate delivery force to deliver their products, and even with
8 those three—Miami, Biloxi, and Fort Wayne—part of the delivery is by mail. In
9 these cases, our newspapers choose to continue with an alternate delivery force
10 because they have an adequate source of lower-cost labor. In South Florida, the
11 alternate delivered product is demographically targeted towards a Hispanic
12 audience.

13 Knight Ridder newspapers were not the only newspapers to move most of
14 their non-subscriber products out of alternate delivery and into the mail. Most
15 large daily newspapers did likewise. Thus, the TMC program of papers such as
16 the *Chicago Tribune*, *Boston Globe*, *Los Angeles Times*, *Baltimore Sun*,
17 *Milwaukee Journal-Sentinel*, *Atlanta Journal and Constitution*, *Washington Post*,
18 *Cincinnati Inquirer*, *Cleveland Plain-Dealer*, *Sacramento Bee* etc. are in the mail.
19 A major exception is *Newsday* in New York City and Long Island. Its program
20 still uses alternate delivery very successfully, although even at that, *Newsday's*
21 program also mails tens of thousands of saturation jackets every week. Part of
22 the reason for *Newsday's* long term success in alternate delivery is that in past
23 years poor postal delivery in the New York metropolitan area created a positive

1 environment for alternatively delivered products. That poor postal delivery
2 provided the alternative delivery company (from which *Newsday* purchased the
3 delivery system) the opportunity to develop a top notch delivery program.

4 **D. Assessment of the Alternate Delivery Industry**

5 In my professional opinion Harry Buckel is dead wrong when he states:
6 "Since I last appeared before the Postal Rate Commission, I believe the
7 competitive scale has tipped against shared mailers and in favor of hand delivery
8 options."¹

9 **1. Newspaper delivery is not alternative delivery**

10 Mr. Buckel seems to be trying to include newspaper delivery in his "hand
11 delivery options" category. This is incorrect.

12 Let me clarify what I see as the differences.

13 First, newspaper delivery is *the selling and delivery* of a newspaper by an
14 agent to a willing buyer, eager to consume the information contained therein,
15 including newspaper inserts. Thus, newspapers deliver a paid product.
16 Alternate delivery and postal delivery, including saturation shoppers, shared mail
17 packages, and non-subscriber TMC packages generally do not. They deliver
18 free, unsolicited print pieces to audiences and sometimes get a very negative

19 ¹ He cites two examples—New York/Long Island and Philadelphia. I have
20 already discussed the New York situation. He fails to mention that the
21 Philadelphia alternate delivery program is a hybrid program owned and operated
22 by Advo. The Philadelphia Advo program uses mail to deliver saturation pieces
23 in the suburbs surrounding Philadelphia and Carrier Boys of America, a private
delivery program to deliver inserts in Philadelphia proper. I believe it is
successful because the alternate delivery program leverages its revenue from
the mailed suburban pieces to create an area wide saturation program.

1 reaction to the delivery. This is why both mailed and private delivery "do not
2 deliver" lists are growing rapidly.

3 Second, newspapers deliver a significant news product, whose
4 advertising portions pay for the collection, production, and distribution of the
5 news. Alternate delivery and postal delivery, including saturation shoppers, and
6 shared mail packages tend not to be news products.

7 Third, newspaper delivery is a seven day per week process while other
8 forms of delivery, including saturation shared mailers, TMC products, and
9 alternate delivery tend to be performed one day per week.

10 Fourth, while the quality and timing of delivery often is a problem with
11 alternate delivery systems and even with the postal system, it is never a problem
12 with newspaper delivery systems. The Postal Service measures its success in
13 percent of on-time delivery. We measure it on an entirely different scale—"daily
14 misses" per thousand. When comparing the two, it is easy to see that
15 newspaper delivery is much more reliable.

16 A Postal Service on-time rate of 92% translates into 8 misses per hundred
17 or *80 misses per thousand*. The average newspaper measurement is *1.5 misses*
18 *per thousand*, according to Mr. John Murray, NAA's Vice President of Circulation.
19 The newspaper is also on time, all the time. Subscribers expect their paper on
20 their doorstep at 6:00 a.m. and they get it, day after day, week after week.

21 Thus, while Mr. Buckel would love to have you believe that newspaper
22 inserts are alternate delivered, they are not. They are NEWSPAPER delivered,
23

1 and there is a big difference.²

2 2. *The state of alternative delivery*

3 Our past and present experience with alternate delivery leads us to see
4 that it is an industry in the midst of hard times, struggling to survive. This
5 industry has high delivery costs, a growing shortage of unskilled labor to deliver
6 the products, and the economic inability to deliver on more than one day per
7 week. Moreover, there is an unwillingness on the part of medium and large
8 retailers to trust the delivery of their inserts by any method which excludes either
9 newspapers (with their traditionally high cash register response and consistently
10 reliable delivery record) or the mail (with its consistency and with the value of the
11 mailbox). Life is very tough for alternate delivery companies. With only one
12 weekly delivery to sell into and razor thin margins, the loss of one insert from
13 their shared delivery jacket can make the difference between profit and loss in
14 any given week.

15 The Association of Alternate Postal Service's (AAPS) best estimate of
16 what has happened to this industry provides some real insight into this struggling
17 industry. AAPS estimates that in 1995 they had over 300 distributing companies
18 as members of their association. This year they have 100 members directly
19 involved in hand delivery. That is a loss of 66%. This downsizing of an industry
20 was caused by the loss of magazine business and the creation of ECR rates
21 after the 1995 postal reclassification case when at least 200 alternate delivery

22 ² In contrast, the newspaper non-subscriber portion of TMC programs are not
23 "newspaper delivered" and thus are capable of being delivered either by the

1 companies, mostly owned and operated by newspapers went out of existence.

2 Despite what Mr. Buckel says, the alternate delivery business is not
3 gaining over postal delivery, but is barely surviving.

4 **III. THE IMPORTANT ROLE OF ADVERTISING IN SUPPORTING** 5 **NEWSPAPER EDITORIAL CONTENT**

6 It is important to remember that this discussion of Postal Service rate
7 changes isn't just about saturation mail competition with newspapers (as Mr.
8 Merriman and Mr. Baro seem to say), or postal competition with private delivery.
9 It's also about the impact on the editorial product that the newspapers deliver,
10 and upon which America's democratic, social and economic systems depend.

11 This is a much larger issue, and it is an issue that is not at odds with a
12 healthy Postal Service, despite what our competitors like to say.

13 Direct mailing companies and their associations have an attitude towards
14 the Postal Service and competition with the private sector that I find very
15 interesting. Let me give you an example. A few years ago, the Postal Service
16 established a program which they called Neighborhood Mail. Under this program,
17 small businesses could bring in preprinted inserts, not addressed, and in bulk
18 boxes. All they had to do was tell the postal employee which ZIP codes they
19 wanted the pieces saturation delivered to, which day to deliver them, and pay for
20 the mailing. The Postal Service would do the rest. The mailing industry rose up
21 in wrath at this "cutting out the middleman" program and chastised the Postal
22 Service for straying from its core mission and jeopardizing universal delivery and
23

Postal Service or by alternate delivery.

1 the integrity of the Postal system. They killed the program within months.

2 Yet, when the Postal Service takes actions to compete with newspapers—
3 an action that results in decreasing the amount of news distributed to the
4 American public—the attitude of direct mailers miraculously changes to cheers
5 as a federal government agency tries to drive advertising out of newspapers and
6 into their products for them. In this “not-in-my backyard” positioning, I just have
7 not figured out why government competition with mailers is horrible while
8 government favoring mailers over newspapers is honorable. Direct mailers’
9 efforts to tar the newspaper industry in the postal arena as an anti-mail industry
10 which constantly seeks to undermine and destroy the postal system is just dead
11 wrong.

12 The truth of the matter is that all newspapers depend on a healthy postal
13 system. We depend not only on standard mail for the delivery of our advertising
14 products (for large and small newspapers), but also on periodical mail for the
15 delivery of the newspaper itself (for smaller papers). However, even more
16 importantly, all newspapers depend on a healthy delivery system and on First
17 Class for the delivery of the hundreds of thousands of checks that make up our
18 revenue. We have no retail outlets, very few cash sales and not many credit
19 card sales. Our revenue arrives at our offices every day in small checks, mailed
20 at First Class rates.

21 Thus, of the three classes of mail, a healthy First Class may well be the
22 most important. Whether large and small newspapers could thrive if Standard
23 mail and Periodical mail service was unhealthy seems to me an open question.

1 Our businesses would suffer enormously, however, if First Class services were
2 thrown into disarray.

3 This country needs newspapers. Newspapers have been the prime
4 conduit for disseminating information in this country since before the
5 Revolutionary War, and no one seriously asserts that this is going to change
6 anywhere in the near future. Newspapers have provided news which both
7 toppled and elected presidents. They tell us, at any time during the day that we
8 choose to read them, what has happened or is about to happen, and suggest
9 ways to get involved and impact change.

10 To the degree that the dissemination of editorial content shifts to the web,
11 newspapers will still be the major conduit. Indeed, today there are over 1200
12 newspaper web sites in the United States—4,000 worldwide—and seven of the
13 top 20 online news sites (by reach) are newspaper sites.³

14 I personally know from my experiences with the Grand Forks fire and
15 flood, and hurricane disasters in Miami and Biloxi that when catastrophe strikes,
16 newspapers are sometimes a community's only source of information about what
17 happened, the extent of damages, and what people can do to seek help or find
18 lost loved ones. And, this wonderful source of information we know as "news"

20
21 ³ Not that the web hasn't changed the industry. It has and it is. For instance, in
22 Washington D.C., we see—for the first time in years—an afternoon edition of a
23 major paper being published every day. For over a year now,
24 washingtonpost.com has effectively "published" a 5:00 p.m. afternoon edition of
25 the *Washington Post*, with new and different editorial content. This content
26 reflects later afternoon deadlines, and new and breaking stories.

1 comes to us all as a result of advertising. Without advertising, there would be no
2 news.

3 Let me explain why the loss of advertising affects the news. For years,
4 newspapers were designed and produced around a formula of news space
5 directly related to ROP advertising volume. That ratio was traditionally set
6 around 40% news pages and 60% advertising pages. That is, if ROP advertising
7 had 40 pages total in tomorrow's paper, then news would be allocated 28 pages,
8 to yield a total ROP advertising to news ratio of 41% in a series of sections
9 totaling 68 pages. On a daily basis, these percentages were not necessarily
10 hard and fast because of the constraints of press configurations. However, they
11 were accurate guidelines, and overall held true.

12 Newspapers saw the conversion of ROP advertising pages to preprints
13 during the '70s and '80s while at the same time the competition for readers grew
14 more competitive. The shift from ROP to preprints hurt the newspaper's editorial
15 product, and caused less news to be disseminated. News departments
16 throughout the country became very concerned over their shrinking news
17 allocation in the face of a growing need for more information to be placed into
18 evolving new sections of the newspaper (e.g., technology sections, weekend
19 sections, entertainment sections, etc.)

20 Finally, in the '90s newspapers began to allocate news space based on
21 business plans, and not just on ROP advertising pages. This is the system in
22 place today, although not necessarily at all papers. However, this system has its
23 limitations as well. For example, if a newspaper's business plan budgets a

1 certain percentage of a year's total income for the news department, and if the
2 newspaper falls below the revenue plan by, say 5%, the news department—like
3 the rest of the departments—will be forced to cut its expenses by 5%. The
4 easiest way to save 5% is to cut the news allocation and save on labor and
5 newsprint. Expense cutting is necessary to maintain the profit margins that the
6 market demands we maintain, and for which we pay taxes at a rate of 40
7 percent.

8 On the brighter side, most newspapers are in the midst of aggressive
9 campaigns to both maintain current readers and win new readers with, among
10 other initiatives, more news space. These efforts are expensive, but they are
11 working. In the last several years, they have resulted in expansion of newspaper
12 readership.

13 All these efforts are funded with advertising dollars—dollars that we do not
14 want the federal government to put at risk through efforts to pull advertising
15 dollars out of newspapers and into direct mail. Mind you, I am not saying that
16 there should be no direct mail competition for newspapers. There is competition
17 and there always will be. We acknowledge it, and have embraced direct mail
18 ourselves. However, this is a competitive marketplace in which newspapers and
19 direct mailers should fight out. We believe that the Postal Service should stay
20 out of this battle.

21 Newspaper advertising supports the news product of the American print
22 media, and without that news product, this country would be in trouble. These
23 are issues that the testimony of witnesses Baro and Merriman totally ignore.

1 While Mr. Baro and Mr. Merriman's shopper publications both provide valuable
2 services to businesses by delivering advertising information in a timely fashion,
3 neither provides news and editorial content, and neither has to contend with an
4 internal advertising-to-news cross-subsidy, as newspapers do.

5 Moreover, while both surely do serve small businesses, so do we and so
6 do the 1200 daily newspapers and more than 8,000 weekly newspapers
7 distributed each week throughout the United States. Mr. Baro can cloak his
8 request for a postal rate decrease proposal in the mantle of saving small,
9 independent businesses. He doesn't have to be concerned with the impact of
10 government competition on his news content. He has no news product. He did
11 not go door to door after Hurricane Andrew offering free copies of his shopper
12 containing numerous pages of editorial on how to get help or find loved ones.
13 Mr. Baro may claim the need for lower rates to improve his competitive situation
14 and his bottom line. However, he is as free to cut prices and offer special deals
15 to large advertisers as the newspaper industry is. He is also free to add news
16 content, charge a price for his product, and better serve his community by
17 distributing news content.

18 What Mr. Baro doesn't discuss is the social cost to the community when
19 advertisers run in free shoppers with no news content instead of running in
20 newspapers, where they support news content. And it doesn't really make any
21 difference whether the newspaper is the *Miami Herald*, or our Spanish language
22 newspaper *El Nuevo Herald*, or any of the other hundred or so newspapers that
23 exist in South Florida and compete with both the *Herald* and *The Flyer*. The

1 point is not whether we have the advertising, or whether a newspaper or shopper
2 we own has the advertising, but whether advertising is cross-subsidizing an
3 news product.

4 **IV. DISTINGUISHING BETWEEN MARKETS**

5 **A. Overview**

6 Newspapers compete with saturation direct mailers and with other print
7 media. Newspapers and saturation mailers are in the advertising and news
8 business. The Postal Service competes with alternate delivery companies. Both
9 the Postal Service and alternate delivery are in the delivery business.

10 The rates corresponding to the Postal Service's Standard A ECR rates in
11 general, and the pound rate in particular, are the rates charged by alternate
12 delivery companies, not newspaper rates. Except to the degree that a
13 newspaper is running an alternate delivery company, the Postal Service does not
14 compete with newspapers.

15 I believe that it is improper for the Postal Service to price Standard ECR
16 mail with an eye toward helping direct mailers by driving advertising out of
17 newspapers and over to the direct mailers. The situation is not like the head-to-
18 head competitive situation between the Postal Service and overnight delivery
19 companies. I think the public is basically unaffected by whether their packages
20 are delivered by UPS or by the USPS. In contrast, whether ads are in a
21 newspaper or in the mailbox does have an external public impact.
22
23

1 Consequently, if one wants to compare preprint prices of newspapers, the
2 proper comparison is to the preprint prices of saturation mailers. The rates both
3 a newspaper and a saturation mailer charge for an individual preprint are not
4 intended to cover all the costs of the entire product (whether newspaper, TMC,
5 or shared mail package). Both a newspaper and a saturation mailer depend on
6 selling other ads to cover all the costs of their business (which, in a newspaper's
7 case, includes the entire news product).

8 **B. Newspaper Preprint Advertising Rates are Comparable To**
9 **Saturation Mailers' Rates**

- 10 1. *For an advertiser, the relevant comparison is what it costs to*
11 *use newspaper TMC vs. saturation mailer*

12 For most advertisers who want to saturate an area with their advertising
13 message and are not concerned with whether or not it is distributed with the
14 newspaper, the cost per thousand for delivery of that message is a very
15 important consideration, although timeliness and quality of delivery also rank
16 high. After all, it doesn't matter much what it costs to deliver a piece if the piece
17 never makes it to the home or is delivered too late to meet the advertiser's
18 promotion dates.

19 Although some advertisers may use solo mail on occasion, I am talking
20 about the preprint advertisers that choose whether to be delivered in the
21 newspaper TMC program or in a saturation mail program. And I can tell you that
22 for those advertisers, the relevant comparison is between the rates we charge,
23 and the rates charged by companies such as Advo and *The Flyer*.

1 To be successful, we must persuade customers that our newspaper
2 subscriber and non-subscriber TMC program is as good or better than other
3 saturation programs, and costs them around the same. By the time that we talk
4 to them, they have received bids from the saturation mailers for inclusion of their
5 message into their shared mail package. Therefore, our rates have to be
6 competitive with saturation mailers in order for us to get business.

7 What makes things harder for us is that, unlike saturation mailers, our
8 newspaper rates must cover all our costs, not just costs associated with
9 preparing and mailing an ad piece. So in addition to meeting competition, our
10 advertising rates must also help us defray the cost of reporting, editing, and
11 publishing the editorial content of our newspaper. While newspapers also have
12 revenue from subscription and single-copy sales, that revenue pays for the
13 distribution of the newspaper itself.

14 2. *Newspaper rates reflect the costs of weight*

15 I take exception to the testimony of Mr. Merriman on behalf of the
16 Saturation Mail Coalition that "[t]hese same advertisers are also doing inserts
17 into private carrier free papers or newspapers that have circulation in
18 metropolitan areas, like Rapid City or Sioux Falls that we do not cover. These
19 advertisers do not have to pay such finely tuned weight-related advertising costs
20 to distribute their inserts with non postal distributors." If Mr. Merriman is saying
21 that newspaper rates are not "finely tuned weight-related", he is simply wrong.

22 Speaking for the newspaper industry, I can tell you that newspaper
23 programs have used finely tuned, weight-related expenses for years for pricing

1 purposes. Thirty years ago, when we started pricing inserts in our paid
2 circulation newspapers we did so on the basis of the overall size and number of
3 pages making up the insert (which is another way of pricing by weight of insert).
4 When we first considered delivery of inserts with our newspapers we realized
5 that bigger products caused more weight and bulk, which resulted in the need for
6 more trucks, storage and handling space and fewer products carried at a time by
7 our carriers. We adjusted our rates accordingly to compensate for this
8 difference.

9 When we developed non-subscriber distribution programs to respond to
10 advertisers' requests for increased household penetration beyond the
11 newspaper subscriber only, we initiated TMC rates that were blended. By
12 "blended," I mean a rate which is the same for the newspaper-delivered portion
13 and the non-subscriber delivered portion. These rates certainly reflect the
14 additional costs of delivery caused by heavier-weighted ads.

15 The result is that our blended rate pricing methodology (newspaper plus
16 non-subscriber distribution) is very similar to that of shared mail saturation
17 mailers – which differs *considerably*⁴ from the rates of the Postal Service. Just
18 like Mr. Merriman's company, our expenses also rise with weight and size of the
19 inserts we distribute. In many daily newspaper markets both newspaper and
20 non-subscriber carriers are paid additional compensation based upon the size of
21 the insert package to be delivered. Many papers pay increased compensation

22 ⁴ For instance, I have been told that in Miami *The Flyer* recently charged under 2
23 cents to distribute an insert.

1 for delivery of catalogs or other unusual products.

2 3. *Saturation mailers are free to cut deals with large advertisers*

3 Mr. Baro, in his testimony on behalf of the AISOP would have you believe
4 that "[b]ecause our distribution costs are based on postal weights and rates we
5 cannot offer special deal (sic) to our biggest customers." This is nonsense.
6 Saturation mailers have been free to cut deals with large advertisers for as long
7 a period as newspaper TMC companies have, and they regularly do so.

8 I live in Miami and through my work with the *Herald*, I know that Mr. Baro
9 and *The Flyer* publication which he represents have used frequency of
10 advertiser-deliveries per year and size of insert as a benchmark for special
11 pricing to entice their biggest customers and potential customers to use their
12 distribution services on a regular basis. If this were not the case, how could they
13 explain why a South Florida food store, with a four page tabloid insert, who
14 agrees to deliver over 200,000 copies every week for a year, gets a rate of under
15 2 cents per insert when the actual postal delivery rate is 11.3 cents per insert, or
16 more.

17 The answer is that large advertisers provide *The Flyer* with a reason to go
18 to each household every week and *The Flyer* provides the large advertiser with a
19 very low rate to get this business. They use that availability to go forth and sell
20 other advertisers into the package to be delivered.

21 For years, the key to success in both the TMC business and the shared
22 mail business has been to find a large paying advertiser to be your anchor and
23 contract with you to deliver its insert to every household in a ZIP code every

1 week. When one finds an advertiser of this type, they price delivery very
2 competitively because they know that they will be able to sell other advertising
3 into the same areas the large advertiser wants inserts delivered to.

4 It is also important to remember that under the present Standard A rates
5 any jacketed product under the 3.3 ounce breakpoint still pays the same delivery
6 fee as a jacket right at the weight break. Many jacketed saturation mailers
7 estimate the trend line of the weight of their jackets and offer four weeks free
8 delivery in selected ZIP code "deals" to advertisers to lure them out of their
9 competitors' package. They can do this because the saturation mailers know, in
10 most cases, that their only costs will be inserting the product into the appropriate
11 jacket.

12 4. *A comparison of Miami Herald rates to our rivals'*

13 While our rate cards are public information and available throughout the
14 market, we don't share our best rates with our competitors nor they with us.
15 However, advertisers talk. A lot. The bottom line from our discussions with
16 customers is that, in healthy saturation markets the competition for customers is
17 so intense that delivery rates tend to be very comparable. In South Florida, it
18 looks like this:

19 For an advertiser who wants someone to print and deliver an 8.5" x 11"
20 light weight advertising piece every week, *The Flyer*, *Advo* and *The Miami Herald*
21 all would charge around 2.5 cents to 4.0 cents per household. Food store
22 advertisers are getting their four page tabloids delivered weekly for anywhere
23 from 1.5 to 2.2 cents per household. And finally, an advertiser with a 12 page

1 tabloid insert, wishing saturation of the full market on a weekly basis, is getting
2 their product delivered for around 3.0 cents per household.

3 **C. Postal Service compared to Alternate Delivery**

4 The *Miami Herald's* TMC program uses both alternate delivery (25%) and
5 mail (75%) to deliver its program. When we decide whether to use alternate
6 delivery or the mail for the non-subscriber delivery, among the things we look at
7 is the cost for delivering the entire package by an alternate delivery company
8 compared to the Postal Service.

9 When we do that, we do not consider the rates that we or our saturation
10 mail competitors charge the advertisers. Those rates are what an advertiser
11 pays to participate in a package containing other ads. In deciding on the means
12 of delivery of the advertising package, the relevant comparison is the cost of
13 alternate delivery and the postal cost.

14 By cost of alternate delivery, we mean the total, or fully loaded, cost of
15 reaching every household. Mr. Merriman in his response to AAPS
16 interrogatories (AAPS/SMC-T2-7) states "there was consensus among several
17 publishers at this group that they were able to find and hire independent
18 contractors in city areas to pay rates of 4 cents per paper and one-half cent to
19 one cent per insert."

20 I am not aware of any location that pays that little for delivery, but in any
21 case that would not be the total cost of alternate delivery. The total, or fully
22 loaded, costs also include shipping of the product to handling areas, packaging
23 the inserts, delivery to distribution facilities, management of the facility,

1 generation of delivery manifests, management of the delivery function,
2 management of the quality control verification function, plus all of the
3 infrastructure functions such as payroll, accounts payable and accounts
4 receivable. When all of these costs are loaded into the system, the total cost of
5 alternate delivery is much higher. For example, in Miami, our minimum fully-
6 loaded cost (which does not include any margin for profit) for our yearly average
7 piece, which is about 5 ounces, is 19 cents.

8 **V. CONCLUSION**

9 Contrary to the testimony of other witnesses, the alternate delivery
10 industry is in dire straits. Alternate delivery simply does not today pose a serious
11 competitive threat to the Postal Service that would justify reducing the pound
12 rate for Standard A ECR mail.

13 In addition, the Commission should remember that the setting of rates for
14 advertising mail has consequences outside of the mail. For every dollar of
15 newspaper advertising that shifts out of newspapers and into direct mail,
16 economic support for news is lost.

17 Finally, newspapers do not compete with the Postal Service. Alternate
18 delivery competes with the Postal Service. Newspapers compete with saturation
19 mailers, and our rates are comparable with theirs.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the instant document on all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

August 14, 2000



William B. Baker